Bulletin for Senior Investors

consumer*brief*

Senior citizens cannot leave the fate of their retirement nest eggs to chance. There is always some element of uncertainty in investing, but when the money at stake represents a lifetime of savings or a lump-sum pension payment – money that is crucial for retirement and cannot be recaptured – taking undue risk may spell disaster. Unfortunately, it can sometimes be difficult for you to know when the risk is too great, or if you are being misled into investing in a product that is unsuitable for your needs.

Here are some tips you can use to take charge of your money:

Map out your financial goals before you meet with a financial planner, broker, investment advisor, or any other investment professional. You should first have a firm grasp of your short and long-term investment goals and needs before you consult with an expert. How much income will you need to meet fixed expenses apart from any pension or Social Security income? Do you have children or grandchildren to educate? Are your elderly parents in need of care? How is your own health? You need to determine your own budget needs and your ability to tolerate risk first, and then decide what kinds of investments would best fulfill these goals.

This also means you should take the time needed to understand the various investment products available to you. If you receive a lump-sum pension payment or an early retirement pay-out, you may feel pressure to invest it quickly in order to avoid adverse tax consequences. Sound investing requires careful consideration. If you need time to fully explore your options, put the funds in a money market account and then invest once you feel ready to do so. Otherwise, you may be susceptible to high-pressure sales tactics. A quick fix is not the answer in this situation.

Know your investment professional. The first step in dealing with an investment professional is to check with the **New Jersey Bureau of Securities** regarding his or her professional reputation. You can reach us by phone at 973-504-3600. Or write to: **State of New Jersey, Division of Consumer Affairs, Bureau of Securities, P.O. Box 47029, Newark, NJ 07101**. You should avoid doing business with financial professionals who have a record of state, federal, and self-regulatory disciplinary actions, negative arbitration decisions and civil litigation judgments.

Always take time to interview two or three investment professionals before settling on one who seems to understand your needs. Recognize that a broker who uses the title "financial consultant" or "investment counselor" does not necessarily have any extra training or expertise other than that of selling stocks and bonds. If you are working with an investment advisor, ask to see both parts of their Form ADV (a form that is kept on file with the SEC that contains critical financial information about a registered investment). They are required to give you Part Two, which sets out their method of compensation, education, areas of expertise, investment strategies and business methods. Part One can also be helpful, as it includes their disciplinary history, which could provide warnings. Remember, contact the **New Jersey Bureau of Securities** to see if we have any information on the individual.

Understand your investment. Focus on the whole range of the investment's characteristics in your decision-making, not simply on promises of a high return. Before you purchase an investment, you should understand the cost, degree and nature of the risks, investment goals (e.g., income with a high degree of safety), performance history, and any special fees associated with the investment. Never assume that your investment is federally insured, low-risk or guaranteed to deliver a certain return. A broker who sells investments on the premises of a bank is part of the bank, but investments are not protected by FDIC insurance.

You should not rely on oral statements for assurance -- get it in writing, and make sure you understand the information you are given. Once you have that information, check it against your own goals and risk tolerance to see if the recommended type of investment is good for you.

The most detailed source of information on an investment product is the prospectus (or similar offering document). Unfortunately, most prospectuses are too long and technical for anyone other than a sophisticated investor to comprehend. However, you don't have to read every word to understand the nature and risk of the investment. Pick out the essential information provided in the document to determine if the product is right for you.

For a mutual fund, for example, be sure to get answers to the following:

- What are the fund's goals and investment strategies?
- What are the fees and other costs involved, and how do they compare with similar funds?
- How are the costs determined?
- What is the fund's performance and management history? How does it compare with similar funds?
- What are the risks involved with each of the investments in a bond or mutual fund? How does it compare with similar funds?
- Are derivatives part of the fund? If so, are they used for hedging or speculating?
- Who makes investment decisions for the fund?
- Who can you call for more information?

These are a few of the questions to ask about a mutual fund. Your library is a good source for publications on investing. For example, the research firm Morningstar publishes detailed analyses of investment products. The Securities and Exchange Commission also has brochures about investments.

Understand how your financial professional is making money by selling an investment. If you want truly objective advice, you have to be prepared to pay for it. A fee-only financial planner will charge you a certain amount up front, but does not earn income based upon what recommendations he or she makes to you. However, brokers and most financial planners are paid through commissions on the sales of investments, which means they get a percentage of the money you allocate toward a particular investment.

For example, if you give them $5,000 to invest in a mutual fund, their commission may be 4 percent, or $200, making your actual investment in the fund $4,800. When the commission is deducted from your investment, you lose not only that money, but the investment income it would have earned over time. A good rule of thumb: the amount of the commission depends on the type of product and its associated risk. So, in most cases, the higher the risk, the higher the commission.

If a broker uses the title "financial analyst" or "investment consultant" it does not mean that they provide objective financial advice. Don't confuse a sales pitch with impartial advice that is suited to your particular needs. Be wary of brokers who seem too eager to put you into an in-house mutual fund, or in exotic investments you know nothing about. Ask the broker if he or she will receive any extra commission or other incentives for selling you a certain product.

Exercise particular caution when buying uninsured investments on the premises of a bank. Although a bank may provide you with more convenience and be less intimidating than a brokerage firm, it does not provide you with any more assurance against the possible loss of principal in an uninsured investment. In fact, the brokerage firms affiliated with banks sometimes offer only a limited range of investment options, and may be prone to pushing their own products. While you may feel more comfortable dealing with your bank (or someone else doing business there), you should not let convenience guide your decision about where to invest. Remember that investments are not FDIC insured.

Make sure you fully understand your account statements. Your account statement should reflect only the pattern of investing that **you** have authorized. If you note a discrepancy, raise the problem immediately with your broker and the branch manager who supervises the broker.

Review your account statement to see how your investments have performed and how much they are costing you in commissions and fees. Since you are unlikely to find this information on your account statement, ask your financial professional to calculate these figures, and have the written results sent to you. Do not work with a financial professional who is unwilling or who claims to be unable to provide this information.

Don't be embarrassed to ask questions about the meaning of unfamiliar terms and abbreviations that appear on your statement. An investment professional who is unwilling to take the time to answer your questions probably should not be entrusted with your life savings. The account statement is your primary tool to police your investments, so make sure to take full advantage of it.

Never be afraid to ask questions at any stage of the investment process. You are the person in control of your money, even if you hire an expert to help you manage it. *Don't sign over discretion for your account to your broker, as his or her idea of a "good trade" may not be in your best interest.* You have every right to ask a financial professional why he or she is making a certain recommendation, what the alternatives and the risks are, and what are the commissions or fees. If you are uncertain about a product, or what is being told to you, ask questions until you understand. If someone tries to assure you by stating that an uninsured investment is as safe as "the money in your pocket," it is time to walk out the door ... while your money is still in your pocket!

For more information, contact:

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